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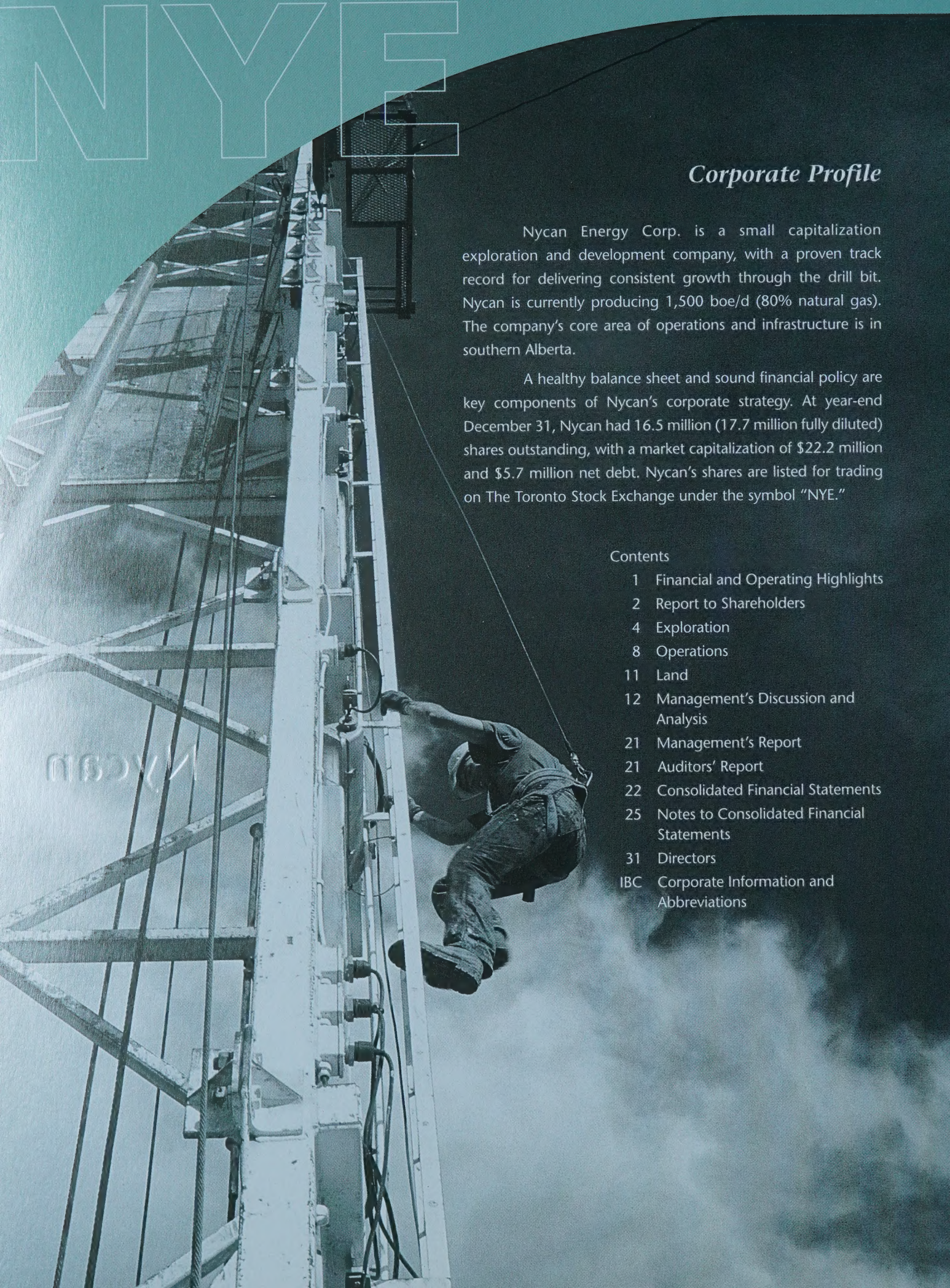
2001 ANNUAL REPORT

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Nycan
ENERGY CORP.

Growth through the drill bit

NYE



Corporate Profile

Nycan Energy Corp. is a small capitalization exploration and development company, with a proven track record for delivering consistent growth through the drill bit. Nycan is currently producing 1,500 boe/d (80% natural gas). The company's core area of operations and infrastructure is in southern Alberta.

A healthy balance sheet and sound financial policy are key components of Nycan's corporate strategy. At year-end December 31, Nycan had 16.5 million (17.7 million fully diluted) shares outstanding, with a market capitalization of \$22.2 million and \$5.7 million net debt. Nycan's shares are listed for trading on The Toronto Stock Exchange under the symbol "NYE."

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Financial and Operating Highlights

	2001	2000	1999	1998	1997
Financial (\$000s except per share amounts)					
Revenue (before royalties)	15,382	13,714	5,775	7,513	1,837
Cash Flow from Operations	8,670	7,468	3,404	5,181	867
Cash Flow per Share					
– Basic	\$ 0.53	\$ 0.48	\$ 0.29	\$ 0.13	\$ 0.11
– Diluted	\$ 0.52	\$ 0.44	\$ 0.29	\$ 0.13	\$ 0.11
Net Income (Loss)	3,762	3,692	1,177	(49)	229
Net Income (Loss) per Share					
– Basic	\$ 0.23	\$ 0.24	\$ 0.10	\$(0.01)	\$ 0.03
– Diluted	\$ 0.22	\$ 0.22	\$ 0.10	\$(0.01)	\$ 0.03
Total Assets	33,291	27,644	17,729	9,966	7,538
Shareholders' Equity	17,312	13,456	9,199	5,723	4,578
Common Shares Outstanding (000s)					
Weighted Average	16,505	15,622	11,709	9,160	7,864
At Year End					
– Basic	16,512	16,198	15,337	11,487	8,605
– Fully diluted	17,700	17,890	17,295	11,962	9,155
Operations					
Daily Production					
Oil and Ngl's (bbls/d)	304	271	218	219	118
Natural Gas (mcf/d)	6,681	5,637	3,663	1,661	1,125
Product Prices					
Oil (\$/bbl)	27.84	35.88	24.11	14.97	21.28
Natural Gas Liquids (\$/bbl)	31.64	36.68	19.60	17.57	23.77
Natural Gas (\$/mcf)	4.97	4.87	2.87	2.07	1.92
Undeveloped Land (Acres)					
Gross	122,268	97,423	90,494	62,122	43,447
Net	54,162	38,608	29,539	14,912	10,239
Number of Wells Drilled					
Gross	43	52	38	10	21
Net	21.0	21.8	16.7	5.6	7.1

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Fellow Shareholders:

For many junior exploration and production companies, 2001 will be remembered as “the year that wasn’t.” Calls for increased demand from cogeneration facilities early in the year and a bullish price trend for natural gas were followed by weakened demand and a precipitous price drop in the summer of 2001. Oil prices, which had been stable, also declined sharply later in the year.

Despite weakened commodity prices, Nycan generated record production volumes and reported consistent gains in corporate cash flow and earnings. Moreover, with a stable production base and healthy balance sheet, the company was positioned to seize opportunities created by this low-priced environment. In the second half of 2001, we successfully completed two major farm-in arrangements, both in the company’s core area of southern Alberta. A substantial 100,000-acre farm-in, located in the Retlaw area, is adjacent to company operations and infrastructure. A second 11,000-acre farm-in at Craigmyle extends Nycan’s core interest area to the north. These arrangements afford Nycan the kind of access, which would otherwise be unattainable for a company of its size, to large undeveloped acreage with multiple drilling targets. Together with the company’s existing portfolio, the farm-in lands provide ample growth opportunities for years to come.

2001 Highlights

Nycan showed a positive performance in 2001 and reported year-over-year gains in all key operating and financial indicators. Production grew by 17%, cash flow by 16%, and earnings by 2%. Growth was seen likewise on a diluted per share basis, with cash flow up 18% to \$0.52, and earnings at \$0.22, consistent with the prior year. Nycan exited the year with a record average 1,417 boe/d of production (78% natural gas) after generating \$8.7 million in cash flow. As in previous years, growth was achieved almost entirely through the drill bit, primarily in southern Alberta where the company has a proven track record for finding shallow gas wells and placing them on production.

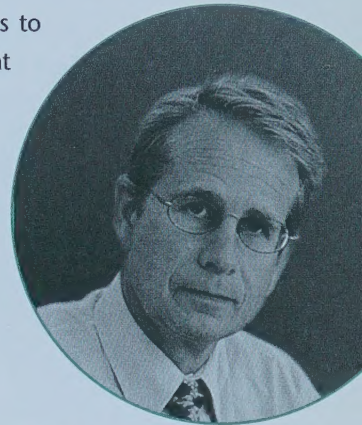
The year was highlighted by the completion of two multi-well farm-in agreements in the fall of 2001. The 100,000-acre Retlaw farm-in and option arrangement gives Nycan access to an extensive seismic and geophysical database over the lands as well as drilling, re-entry and re-completion candidates. Nycan and partner each will assume a 50% working interest in the farm-out lands, with Nycan as operator. The proximity to Nycan’s main gas gathering lines will minimize the cost of placing new wells on production. In addition, the 11,000-acre Craigmyle farm-in, north of Nycan’s existing operations, has multiple drilling targets and is being established as a new core area for the company.

Capital expenditures of \$12.1 million were up 41% over the previous year. Nycan had a busy 32-well drilling program during the first six months, but activity levels were dramatically curtailed to 7 wells and 4 wells in the third and fourth quarters, respectively. In total, Nycan’s drilling success rate of 95% resulted in 15.6 net natural gas wells and 4.4 net oil wells, adding 400 boe/d of production. As commodity prices softened in the second half of 2001, the company revised its capital program to bring spending more in line with reduced cash flow. As a result of soft natural gas prices, Nycan did not complete a significant number of drilled and cased natural gas wells in the Enchant, Craigmyle and Retlaw North areas and at year-end, net production behind pipe was more than 1.5 mmcf/d. This production is scheduled to be placed on stream during 2002.

At year-end, the company showed a healthy balance sheet, with net debt of \$5.7 million. The company still had \$10.5 million available on an existing line of credit of \$16 million. Year-end debt to 2001 cash flow stands at less than one times, giving the company the financial flexibility to pursue opportunities that may arise during the forthcoming period.

Nycan's success as a company resulted in an unsolicited expression of interest in March 2001 to acquire the company. In response, the Board of Directors retained a financial advisor to review all available options to maximize shareholder value. It was determined that the best alternative was to continue operating as an active company, and we moved forward to further expand the asset base.

During the year, Nycan established systems, added technical staff, and expanded resources to accelerate the company's growth. Nycan entered 2002 with an enhanced management group that brings additional expertise in key disciplines. In January 2002, Mr. Gary Lobb was appointed Vice President, Finance and Chief Financial Officer. Mr. Lobb is a Chartered Accountant with more than 17 years of financial management experience and, most recently, was Vice President of Finance and Corporate Secretary for Tetonka Drilling. In August 2001, Mr. Elias Gildeh joined Nycan as Exploration Geologist. He brings over 12 years of experience in the Western Canadian Sedimentary Basin and in the international arena. In July 2001, Mr. Dave Harris joined Nycan as a Geologist, and Ms. Debbie Kniss joined as our Operations Assistant.



*Robert L. (Locke) McPherson
President and CEO*

2002 Outlook

Commodity price uncertainty is expected to continue in 2002, as the market weighs OPEC's production quota compliance, natural gas storage statistics, and the pace of economic recovery. The long-term outlook for natural gas prices, however, is healthy given the tight supply/demand fundamentals for natural gas in North America. For 2002, Nycan has budgeted an estimated \$6.0 million capital program which will be matched to cash flow and adjusted to commodity price fluctuations. A planned 17-well drilling and re-entry program will focus on low risk drilling, completions, and tie-ins that yield immediate return on invested capital. Exploration and development activity will concentrate on the farm-in lands at Craigmyle and in the Retlaw, Turin, Carmangay and Little Bow areas of southern Alberta. For 2002, average production of 1,600 boe/d (80% natural gas) is forecasted, representing a modest improvement over 2001.

While 2001 was not a benchmark year, the company did make major strides and the stage was set for what could be a break-out year in 2002. We strategically secured a dominant position in our southern Alberta focus area, where our drilling expertise and ready infrastructure should ensure our success. We added a full complement of technical and administrative skills to optimize the company's assets and move us quickly forward. Nycan's solid operations, consistent growth record, and strengthened management group bode well for the company's future performance.

A stylized black ink signature of Robert L. (Locke) McPherson.

Robert L. (Locke) McPherson
President and CEO

April 5, 2002
Calgary, Alberta

Overview

Nycan's 2001 exploration and development program began at a record pace but slowed considerably as product prices dropped in the second half of the year. The company responded to reduced expectations for cash flow by curtailing its capital exposure to drilling projects and shifting its focus to prospect development. In addition, as weak commodity prices caused the industry to re-evaluate its capital projects, Nycan saw a window of opportunity to strengthen its land position in its core area.

Nycan's drilling program, which had been planned for higher than realized natural gas prices, did not fully meet expectations. However, the company was able to take advantage of the industry environment by securing land deals, through purchase and farm-in, that added almost 150,000 acres available for exploration and development in Nycan's core interest area in southern Alberta. Despite aggressive competition, Nycan succeeded in negotiating economically attractive terms for these arrangements. The lands became the focus of activity during the second half of 2001, and the 2002 capital program will be dedicated to exploitation and development projects on these lands.

The acreage will enable the company to build on existing play types and develop new exploratory concepts in an area where company-owned infrastructure facilitates immediate tie-in to production. The company's existing Second White Specks and Medicine Hat play types trend over the Enchant, Retlaw, Retlaw North, Turin, and Carmangay areas of southern Alberta.

Nycan's Second White Specks natural gas trend saw the drilling of 12 (5.5 net) wells in 2001, with the tie-in of only 3 (1.2 net) of these and the balance to be tied in once prices have firmed. Nycan's Second White Specks gas wells will require down-spacing from 640 to 320 acres to more efficiently drain the reserves in place. To minimize costs, this low risk development program will be undertaken on a multi-well project basis when prices strengthen.

Analogous to the Second White Specks is the Medicine Hat natural gas sand play at Retlaw North. During 2001, Nycan participated in drilling 1 (0.5 net) well along this trend. This play also requires 320-acre down-spacing, with some 12 (5.0 net) infill and dual completion locations identified on Nycan lands.

28,000-acre purchase at Retlaw North

The 2001 year opened with a successful acquisition in Retlaw North in the face of fierce competition. Nycan purchased 27,970 (11,786.5 net) acres including 8 shut-in wells for \$437,500. These wells were re-entered or re-completed and returned to production during the second quarter. Additional wells will be drilled to develop the shallow gas zones that underlay much of this acreage. This acquisition complements Nycan's existing acreage and is adjacent to company operations and infrastructure. Nycan's existing lands in this area are prospective for natural gas in both the Second White Specks and Medicine Hat, with 12 (7.3 net) wells producing from Second White Specks and 6 (1.9 net) from Medicine Hat.

11,000-acre farm-in at Craigmyle

In September, Nycan successfully completed a farm-in agreement on 11,000 acres in Craigmyle, just north of Nycan's core landholdings. Craigmyle is similar in depth and operating conditions to much of the company's existing lands in southern Alberta with year-round access, well-developed infrastructure and multiple targets. Nycan participated in a re-entry and the drilling of 2 wells on the farm-in lands during the year. The re-entry is now on production and the other 2 wells are awaiting completion. Early in 2002, another well was drilled and cased.

Nycan has been targeting gas in the Mannville lithic channel, with additional natural gas potential in the Glauconite, Ostracod and Basal Quartz and crude oil in the Banff. Wells in this lithic channel sand typically produce 500 to 1,000 mcf/d and have long life reserves. Activity will continue in the area throughout 2002 as the company establishes Craigmyle as a new core area.

100,000-acre multi-well farm-in in southern Alberta

The fourth quarter of 2001 saw a second multi-well farm-in and option agreement on 100,000 acres of land in southern Alberta. These landholdings are adjacent to Nycan's existing wells and infrastructure at Retlaw, Turin, Carmangay, and Little Bow. The farm-in gives Nycan and its partner access to a comprehensive seismic data-base over the lands and well bores that can be re-entered or re-completed. The transaction also provides Nycan with access to varying play types and risk profiles. The initial earning phase of the farm-in is comprised of 3 re-entries, 1 re-completion and 4 new drills. To date, drilling has resulted in 4 natural gas wells and a dry hole. During the second half of 2002, the company will commence operations under the option phase of the agreement.



Carmangay

Three wells were drilled into the Second White Specks in the Carmangay area, and 1 is on production while the other 2 are awaiting tie-in when natural gas prices firm. A well drilled on the southern edge of Carmangay to test a Medicine Hat sand similar to that found at Retlaw North, tested gas at uneconomic rates.

Enchant

On this Second White Specks gas trend, Nycan participated in the drilling and casing of 4 gas wells during 2001. All are adjacent to Nycan's existing pipeline infrastructure and are awaiting completion once prices improve. Nycan was granted an application for down-spacing the Second White Specks from 640 to 320 acres and has identified approximately 13 (6.5 net) infill locations. To maximize the value of the infill locations, Nycan will develop this extensive pool as a multi-well drilling and completion project.

Little Bow

At Little Bow, Nycan continued the exploitation of its Belly River gas pool and now has an interest in 4 (2.0 net) wells, 3 of which (1.5 net) are currently on production. Two additional locations (1.0 net) have been identified and will be drilled during 2002. Nycan identified locations for 4 exploratory Mannville tests, originally planned for 2001 but delayed due to capital constraints. In 2001, Nycan re-entered an existing well and subsequently sold its 15% interest for \$103,125, realizing a 290% return within a three-month period.

Nycan Properties



Turin East and Turin

Turin East is Nycan's largest producing area with production from the Mississippian, Mannville and Upper Cretaceous zones. At Turin East, Nycan participated in the drilling of 5 (1.9 net) wells, resulting in 2 (0.6 net) natural gas producers, 2 (0.9 net) oil wells, and 1 (0.4 net) dry hole.

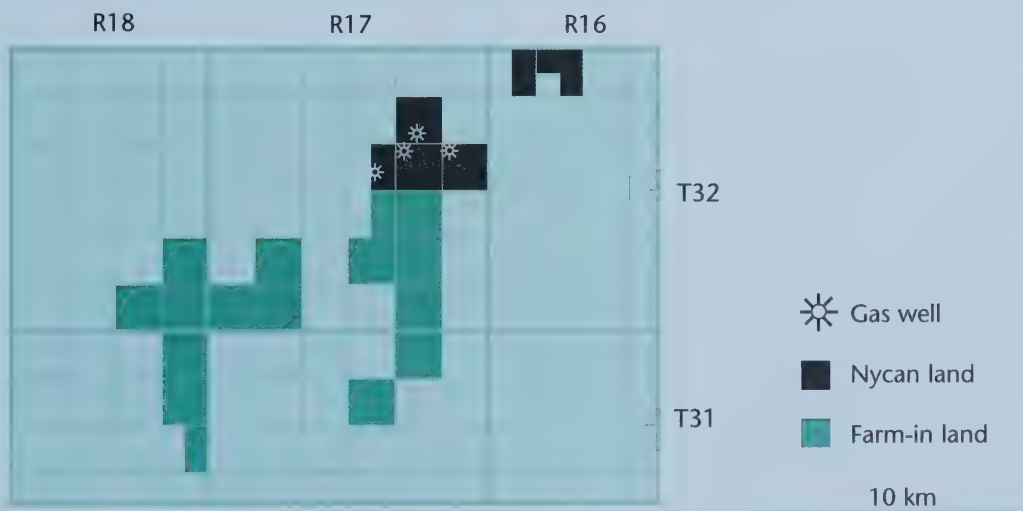
Nycan had mixed results on its Taber Sand oil play at Turin. Five (1.8 net) wells resulted in 3 producers and 2 (0.8 net) abandoned wells after unsuccessful completion efforts. Nycan's 3-D seismic successfully indicated the highs, but was less useful for showing reservoir quality. Nevertheless, a combination of seismic and geological mapping brought an economic success rate of approximately 60%.

Significant potential still exists in this area on Nycan's undeveloped lands at Turin and Turin East, where the company has identified 30 (10.0 net) locations. A minimum of 4 (1.9 net) wells has been budgeted for this area for 2002.

Outlook

For 2002, Nycan will continue to exploit its farm-in arrangements with development drilling, using existing play types together with some projects of a more exploratory nature. The year 2001 positioned the company to embark on a project approach, particularly on the Second White Specks and Medicine Hat trends at Enchant, Retlaw North, Retlaw and Carmangay. After successfully securing much of the land along these trends, Nycan will be able to minimize drilling and completion costs while optimizing production through down-spacing. Nycan looks forward to the strengthening of commodity prices, which should contribute to an exceptionally rewarding exploration and development program.

Craigmyle Farm-in



Overview

With 2001 production averaging 1,417 boe/d, up from 1,210 boe/d a year ago, Nycan continued its year-over-year production growth. An additional 1.5 mmcf/d is behind pipe due to lower than anticipated prices for natural gas. Nycan's production profile at year-end was approximately 80% natural gas and 20% oil and liquids. Established reserves grew to 5,073 mboe from 4,484 mboe the prior year.

Drilling activity in the first six months of 2001 was extremely busy but declined significantly in the second half due to weak commodity prices. A total of 32 (14.5 net) wells were drilled or re-entered in the first six months versus 8 (5.3 net) new drills and 3 (1.2 net) re-entries in the last six months. These resulted in 31 (15.6 net) successful natural gas wells and 10 (4.4 net) oil wells with only 2 (0.9 net) dry holes, yielding an impressive 95% success rate. Nycan focused on drilling in its core areas of southern Alberta and also established a new core area in Craigmyle.

The company continued to expand its gas gathering capacity by installing additional flowlines in the Retlaw North and Little Bow areas. Nycan has now completed over 40 miles of 6-inch pipeline in the Carmangay, Enchant, and Retlaw North areas. This pipeline network gives Nycan the capability of maximizing profit through third-party gas transportation as well as reducing the company's tie-in expenditures for future drilling successes and current cased natural gas wells.

Reserves

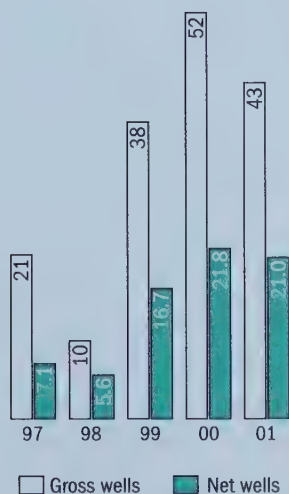
Nycan's oil and natural gas reserves and their associated net present value were evaluated by independent engineering consultants Ashton Jenkins Mann, as of January 1, 2002 and are detailed in the following table. Year-end total proved reserves were determined to be 4,132 mboe. Proven and risked probable reserves increased by 13% to 5,073 mboe from 4,484 mboe last year. The independent engineering report assumed an oil price per barrel of WTI \$20.00 U.S. in 2002, \$20.40 in 2003 and \$20.81 in 2004. Natural gas prices per mcf were assumed to be AECO \$3.85 in 2002, \$4.10 in 2003 and \$4.35 in 2004.

	Reserves				Present Value (\$000s)			
	Oil (mstb)	Ngls (mstb)	Gas (mmcf)	Total (mboe)	0%	10%	12%	15%
Proved Developed	458	80	13,962	2,865	44,801	27,911	26,093	23,830
Proved Undeveloped	91	17	6,955	1,267	17,220	7,907	6,979	5,859
Total Proved	549	97	20,917	4,132	62,021	35,818	33,072	29,689
Risked Probable	156	21	4,584	941	17,317	7,023	6,141	5,119
Total Established	705	118	25,501	5,073	79,338	42,841	39,213	34,808

Reserves Reconciliation

	Proved Developed	Total Proved	Established
Crude Oil and Natural Gas Liquids (mstb)			
Opening Balance January 1, 2001	476	628	765
Discoveries, Extensions, Additions	131	131	160
Revisions	42	(2)	9
Production	(111)	(111)	(111)
Closing Balance December 31, 2001	538	646	823
Natural Gas (mmcf)			
Opening Balance January 1, 2001	12,478	19,924	22,320
Discoveries, Extensions, Additions	3,421	6,839	10,418
Revisions	512	(3,397)	(4,788)
Production	(2,449)	(2,449)	(2,449)
Closing Balance December 31, 2001	13,962	20,917	25,501
Equivalent Boes (mboe)			
Opening Balance January 1, 2001	2,556	3,949	4,484
Discoveries, Extensions, Additions	701	1,271	1,896
Revisions	128	(569)	(788)
Production	(519)	(519)	(519)
Closing Balance December 31, 2001	2,866	4,132	5,073

Drilling Activity

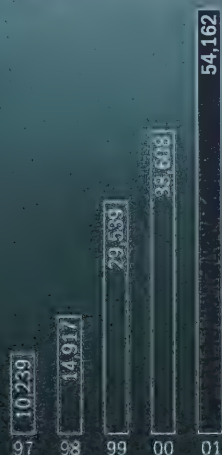
Production
Boe/d

Finding and on-stream costs were up from the 5-year average of \$6.50 per boe to \$10.99 per boe as a result of overall higher exploration and development costs and lower reserve additions than anticipated.

(\$000s)	Average 5 years	2001	2000	1999	1998	1997
Exploration & Development Costs	23,744	7,730	6,831	4,197	1,994	2,992
Land Acquisitions	4,774	1,927	1,066	957	468	356
Total Finding Costs	28,518	9,657	7,897	5,154	2,462	3,348
Facilities	9,541	2,521	2,989	1,865	1,729	437
Total Finding & On-stream Costs	38,059	12,178	10,886	7,019	4,191	3,785
Reserve Additions (mboe) (6:1)						
Proved	5,140	703	1,918	1,612	346	561
Established	5,853	1,108	1,838	1,799	366	742
Finding Costs per boe						
Proved	\$ 5.55	\$ 13.74	\$ 4.12	\$ 3.20	\$ 7.11	\$ 5.97
Established	\$ 4.87	\$ 8.72	\$ 4.30	\$ 2.86	\$ 6.73	\$ 4.51
On-stream Costs per boe						
Proved	\$ 1.85	\$ 3.58	\$ 1.56	\$ 1.15	\$ 5.00	\$ 0.78
Established	\$ 1.63	\$ 2.27	\$ 1.62	\$ 1.04	\$ 4.72	\$ 0.59
Finding & On-stream Costs per boe						
Proved	\$ 7.40	\$ 17.32	\$ 5.68	\$ 4.35	\$ 12.11	\$ 6.75
Established	\$ 6.50	\$ 10.99	\$ 5.92	\$ 3.90	\$ 11.45	\$ 5.10

Land

Undeveloped Land
Net acres



Through a series of successful land acquisitions, undeveloped property purchases and farm-in arrangements during 2001, Nycan was able to assemble nearly 150,000 acres of land in its core operating area of southern Alberta. During the year, the company acquired approximately 34,687 (18,000 net) acres in its core areas of southern Alberta at an average price of \$22.06 per acre, less than the industry average of \$83.36 per acre. Due to extreme volatility in commodity prices during 2001, land prices, which averaged \$126.63 per acre at the start of the year dropped to \$71.15 per acre by year-end. Nycan exited 2001 with 122,268 gross (54,162 net) acres, valued by independent consultants Seaton-Jordan & Associates at \$3.2 million.

In addition to acquiring land, Nycan successfully negotiated two extensive farm-in opportunities. A farm-in at Craigmyle provides the company access to an additional 11,000-acre just north of its core landholdings. Activity during 2002 will establish Craigmyle as a new core area for the company. A second farm-in arrangement covering more than 100,000 acres is adjacent to Nycan's core development areas in southern Alberta.

Management's Discussion and Analysis

The following discussion is management's analysis of Nycan's consolidated operating and financial data for 2001 and the previous year. It focuses on key statistics from the consolidated financial statements and pertains to known risks and uncertainties relating to the oil and gas sectors. For proper perspective, this discussion should be read in conjunction with the material contained in other parts of this annual report and with the company's audited consolidated financial statements for the years ended December 31, 2001 and 2000, together with the related notes.

The following table provides a summary of operations and financial highlights for 2001 compared to 2000.

Year ended December 31	2001		2000	
Operations				
Natural gas (mcf/d)		6,681		5,637
NGL's (bbls/d)		36		34
Oil (bbls/d)		268		237
Boe/d (6:1)		1,417		1,210
	\$000s	\$/boe	\$000s	\$/boe
Financial				
Oil and gas production	15,382	29.74	13,714	31.06
Royalties (net of ARTC)	(2,726)	(5.27)	(2,640)	(5.98)
Production expenses	(2,994)	(5.79)	(2,049)	(4.64)
Operating netback	9,662	18.68	9,025	20.44
General and administrative	(684)	(1.32)	(470)	(1.07)
Interest	(264)	(0.51)	(199)	(0.45)
Current taxes	(44)	(0.09)	(888)	(2.01)
Cash flow from operations	8,670	16.76	7,468	16.91
Depletion and depreciation	(3,398)	(6.57)	(2,432)	(5.51)
Future income taxes	(1,510)	(2.92)	(1,344)	(3.04)
Net income	3,762	7.27	3,692	8.36

Results of Operations

Revenue

Oil and natural gas sales increased 12% in 2001 to \$15.4 million from \$13.7 million in 2000. The gain in sales reflects a 17% increase in average daily production, which was partially offset by lower commodity prices received.

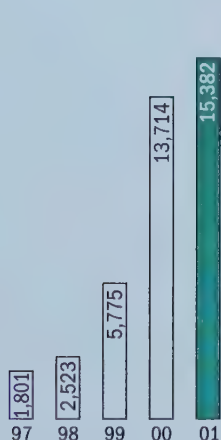
Nycan's average daily production increased to 1,417 boe/d in 2001 compared to 1,210 boe/d in 2000. Nycan has focused on natural gas prospects, with natural gas accounting for over 78% of average production during the year.

The prices for natural gas began the year very strong but showed marked declines as the year progressed. Field natural gas prices averaged \$8.64 per mcf in the first quarter and declined thereafter, averaging \$3.05 per mcf by the fourth quarter, a decrease of 65%. For the year, the average price of natural gas received was \$4.97 per mcf, approximately 2% higher than the \$4.87 per mcf received in 2000. Oil prices began a steep decline in the fourth quarter of 2001 and averaged \$27.84 per bbl for 2001, a 22% decline from last year's average price of \$35.88 per bbl. As well, Nycan's oil production blend is medium quality and therefore, the net field price received is dependent upon not only the world price but the quality differential, which increased 25% from an average of about \$9.17 per bbl in 2000 to about \$11.50 per bbl in 2001. This had the effect of further decreasing the proceeds received on oil production. The change in average realized prices received by Nycan for its products can be seen on the following table.

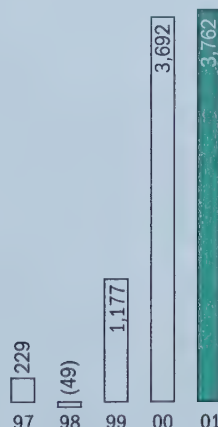
Years ended December 31	2001	2000	% Change
Oil (\$/bbl)	27.84	35.88	(22)
Natural gas liquids (\$/bbl)	31.64	36.68	(14)
Natural gas (excluding hedging) (\$/mcf)	5.44	5.29	3
Natural gas (including hedging) (\$/mcf)	4.97	4.87	2
Average realized price (including hedging) (\$/boe)	29.74	31.06	(4)

The majority of Nycan's natural gas production is sold in the spot market. Nycan has an established policy of not fixing the price on more than 50% of its daily production. During 2001, the company entered a costless collar on approximately 3.0 mmcf/d that resulted in a \$0.47 per mcf reduction in revenue. Nycan remains committed to hedging a portion of its production at a price that protects the cash flow required for ongoing capital commitments. For 2002, the company entered into three fixed price contracts on approximately 2.0 mmcf/d of natural gas. The first contract is for approximately 1.0 mmcf/d at a price \$3.74 per mcf through to March 31, 2002. The other two contracts, for approximately 500 mcf per day each, are at an average price of \$3.83 per mcf through to October 31, 2002.

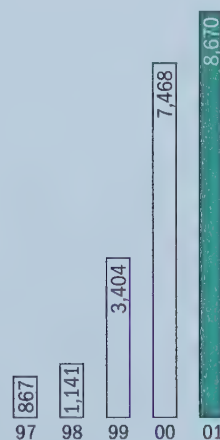
Revenue
\$ thousands



Net Income
\$ thousands

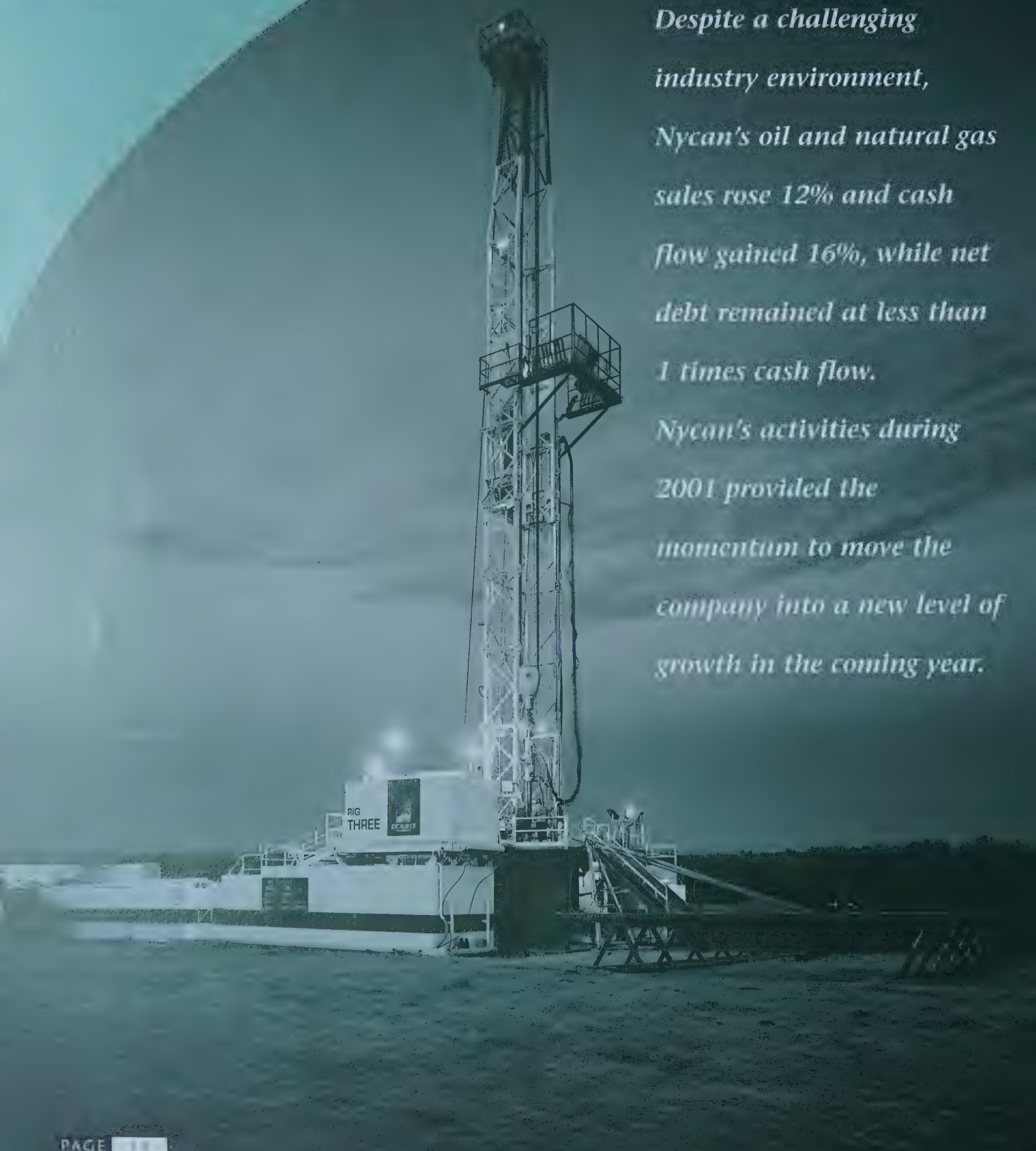


Cash Flow
\$ thousands



NYCE

Despite a challenging industry environment, Nycan's oil and natural gas sales rose 12% and cash flow gained 16%, while net debt remained at less than 1 times cash flow. Nycan's activities during 2001 provided the momentum to move the company into a new level of growth in the coming year.



The following table analyzes the components of revenue changes for 2001:

(\$000s)

2000 Revenues	\$ 13,714
Increase due to product prices	592
Increase due to higher production volumes	2,218
Impact of hedging activities	(1,142)
2001 Revenues	\$ 15,382

Royalties

Royalties, net of Alberta Royalty Tax Credits (ARTC), increased 3% this year to \$2.7 million from \$2.6 million a year ago. As a percentage of revenues, royalties were 18% in 2001 versus 19% in 2000. Royalties comprise payments made to the Crown, freehold owners and third parties, as shown on the accompanying table:

(\$000s)	2001	2000	% Change
Crown royalties	\$ 1,879	\$ 1,885	—
Freehold royalties	675	639	6
Other royalties	586	498	18
ARTC	(414)	(382)	8
Total	\$ 2,726	\$ 2,640	3

The high level of Crown royalties was a function of higher sales volumes and strong product prices. The ARTC rate decreased slightly from about 26% in 2000 to 25% in 2001 but remained constant as a percentage of revenue.

The increase in other royalties resulted from gross overriding royalties paid to industry partners from Nycan's successful drilling on a farm-in basis on their lands. Commodity prices anticipated for 2002 are expected to result in similar ARTC rates, and accordingly net royalties as a percentage of revenue are expected to remain constant in 2002.

Production Expenses

Higher production volumes contributed to a 46% increase in production costs to \$3.0 million from \$2.0 million in 2000. On a boe basis, Nycan saw a 25% increase in production costs to \$5.79 per boe from \$4.64 per boe in 2000. The primary driver for the increase was that the average daily production per well was less in 2001 than 2000. This change was partially due to the fact that the company did not enjoy as much flush production on newly drilled wells since we chose not to complete and tie-in certain new wells until natural gas prices improve. The company estimates that it has approximately 1.5 mmcf/d behind pipe at the present time.

Second, prices for products and services received were higher due to the robust activity levels in industry and did not begin to decline until later in the year. As well, operating costs incurred in the Alderson area were substantially higher due to costs incurred in emulsion hauling and processing. Two wells on this property have now been shut-in and the company is evaluating alternatives to maximize value in the area. Fuel and power costs increased 64% on a boe per day basis due to high cost of propane in the first half of the year. Finally, the company was able to spend significantly less capital by purchasing several used compressors, however, Nycan incurred significant start-up repair and maintenance costs on them afterwards. The maintenance done on those compressors should enable them to run smoothly for approximately three years without additional major repairs.

Operating Netbacks

Lower commodity prices in 2001 combined with high operating costs on a boe basis on low productivity wells resulted in operating netbacks declining about 9% to \$18.68 per boe in 2001 compared to \$20.44 in 2000.

General and Administrative Expenses

(\$000s)	2001	2000	% Change
Gross G&A	\$ 1,237	\$ 947	31
Overhead recoveries	(553)	(477)	16
Net G&A expenses	\$ 684	\$ 470	45

General and administrative costs, net of overhead recoveries, increased 45% to \$684 thousand from \$470 thousand in 2000. On a boe basis, net general and administrative costs increased by \$0.25 per boe, from \$1.07 per boe in 2000 to \$1.32 per boe in 2001. The increase reflected the technical and administrative expertise added during the year to manage the company's heightened activity levels, increased office rent, higher professional fees and one-time costs associated with the company's evaluation of strategic alternatives that took place during 2001. Nycan capitalizes a portion of its general and administrative expenses and the capitalized costs increased to \$122 thousand from \$69 thousand in 2000.

Interest

During 2001, Nycan experienced an interest rate of approximately 6% on its average outstanding bank debt, resulting in total interest expense of \$264 thousand, up from \$199 thousand in 2000. Nycan's cash-flow-to-interest coverage was a conservative 32.8 times in 2001 down from 37.5 times in 2000.

Depletion and Depreciation

(\$000s except where noted)	2001	2000	% Change
Depletion and depreciation	3,398	2,432	40
Depletion and depreciation per BOE (\$)	6.57	5.51	19
Depletion and depreciation rate (%)	11	13	(15)

Nycan's depletion, depreciation and amortization, including future site restoration costs, increased 40% to \$3.4 million in 2001 from \$2.4 million. Of this increase, 84% was due to increased production volumes. The balance related to higher costs being written off per unit of production. On a per unit basis, costs of \$6.57 per boe were up from \$5.51 per boe recorded in 2000. The increase reflects higher capital costs for drilling, completions and equipment due to extremely high activity levels in the first part of the year combined with lower reserve additions than expected from the company's exploration and development program in 2001. The depletion rate decreased from 13% last year to 11% in 2001 as the rate of decline on many of the wells drilled in the past couple of years has now slowed.

Nycan follows the full cost method of accounting and must perform a "ceiling test" analysis on an annual basis. This test limits the net book value of property, plant and equipment to the estimated future net revenues from proven reserves based on then prevailing prices. Using December 31, 2001 prices of \$3.72 Cdn. per mcf of natural gas and \$23.39 Cdn. per bbl of oil, Nycan has a "ceiling test" surplus and therefore no write-down of the carrying value of the assets was required.

Capital and Income Taxes

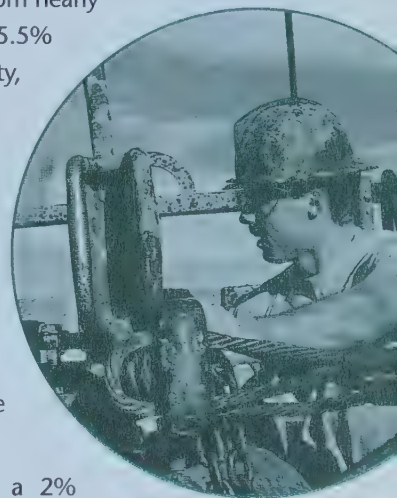
Income tax expense decreased 30% to \$1.6 million in 2001 compared to \$2.2 million in 2000. As a percentage of income before tax, the effective tax rate decreased to approximately 29% in 2001 from nearly 38% in 2000. The primary reason for this was the reduction in the Alberta provincial tax rate from 15.5% to 13.5% in April of 2001. This had the effect of reducing the company's future income tax liability, resulting in a reduction of future income taxes in the year.

The company had no current income tax expense in 2001 other than Large Corporation's Tax. The company presently has approximately \$14.8 million of income tax pools available at December 31, 2001 compared to \$10.9 million in 2000.

Cash Flow from Operations and Net Income

A 17% increase in production volumes more than offset lower commodity prices and higher expenses resulting in 2001 cash flow from operations increasing 16% to \$8.7 million from \$7.5 million in 2000. These gains translated to \$0.52 per diluted share, an 18% increase over the \$0.44 per diluted share posted in 2000.

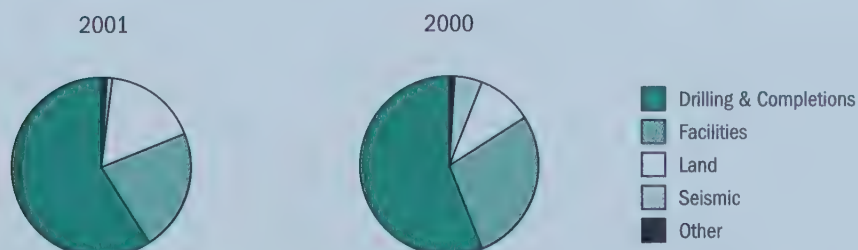
Higher depletion costs were partially offset by reduced income taxes resulting in a 2% improvement in net income to \$3.8 million in 2001 compared to \$3.7 million in 2000. On a diluted per share basis, net income was flat at \$0.22.



Capital Expenditures

(\$000s)	2001	2000	% Change
Drilling and completions	\$ 7,298	\$ 6,068	20
Facilities	2,685	3,122	(14)
Land	2,052	1,114	84
Seismic	143	582	(75)
Other	80	113	(29)
Gross capital expenditures	12,258	10,999	11
Disposals	(171)	(2,410)	(93)
Net capital expenditures	\$ 12,087	\$ 8,589	41

Capital Expenditures



Capital expenditures, before dispositions, rose by 11% to \$12.2 million from \$11.0 million in 2000. Drilling and completions attracted the largest portion of the budget at \$7.3 million or 59%. Facility expenditures accounted for \$2.7 million or 22%, with the balance of \$2.2 million or 19% spent on property acquisitions, geological and geophysical and other equipment. Nycan continued to invest heavily in facilities and pipelines primarily on natural gas projects at Carmangay, Enchant and Retlaw North. In 2001, 72% of the capital program was funded by cash flow, with the remaining 28% of expenditures funded by bank debt and the issuance of common shares.

Capital expenditures in 2002 are budgeted at approximately \$6.0 million and it is anticipated that the major portion again will be spent on drilling and completion followed by facility expenditures. The capital budget will be financed through a reinvestment of internally generated cash flow. The company curtailed many capital expenditures during the last six months of 2001 year to ensure that it could maintain financial flexibility. Nycan is evaluating opportunities to expand its asset base with prudent acquisitions that would be financed primarily with existing credit lines.

Recycle Ratio

	3 Year Avg	2001	2000
Average field netback per Boe (\$)	\$ 17.25	\$ 18.68	\$ 20.44
Finding and on-stream costs per Boe (\$)			
Proved	\$ 7.11	\$ 17.32	\$ 5.68
Established	\$ 6.34	\$ 10.99	\$ 5.92
Reserve recycle ratio			
Proved	2.4	1.1	3.6
Established	2.7	1.7	3.5

The recycle ratio is used as an indicator of the efficiency with which an oil and gas company can replace its produced reserves. As such, the recycle ratio is widely accepted as a measure of value creation. In 2001, Nycan generated a recycle ratio of 1.7 times on established reserves. This brought the company's three-year average recycle ratio to 2.4 times on proved reserves and 2.7 times on established reserves. Each boe produces a cash netback more than twice the cost of replacing that boe.

Capitalization

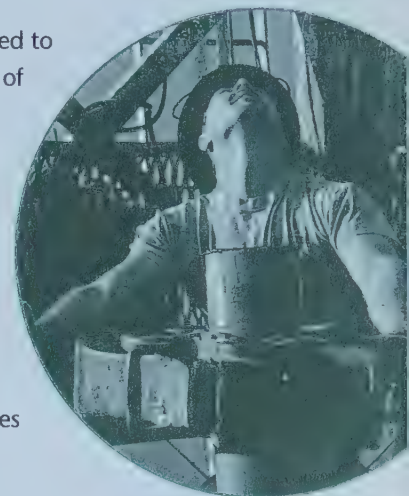
(\$000s)	2001	2000
Long-term debt	\$ 5,584	\$ 1,673
Share capital	8,107	7,825
Retained earnings	9,205	5,631
Total	\$ 22,896	\$ 15,129

Liquidity and Capital Resources

Nycan is committed to maintaining a strong balance sheet to minimize vulnerability to unforeseen declines in commodity prices as well as to maximize the company's ability to respond to opportunities for strategic acquisitions. The company generally correlates capital expenditure levels to cash flow in order to prudently manage business risk. The company's net debt at the end of 2001 was \$5.7 million, up from \$2.5 million at the end of 2000. The company's year-end debt represented 1.1 times annualized fourth quarter 2001 cash flow and 0.7 times year 2001 cash flow.

Nycan had a working capital deficiency of \$119 thousand at December 31, 2001 compared to a working capital deficiency of \$865 thousand at the end of last year. The major components of working capital at year end were accounts receivable for production for the month of December, income taxes recoverable and accounts payables to joint venture partners and suppliers relating to December activities. Nycan's working capital varies on a month-to-month basis depending on the company's capital expenditure program and petroleum and natural gas sales for the month. Drawing from and repaying the unutilized portion of the company's credit facility as needed maintain working capital liquidity.

During 2001 Nycan increased its revolving line of credit to \$16.0 million, of which \$5.5 million was drawn at year end. The facility carries an interest rate of prime plus 0.5% and is payable on demand. This facility provides Nycan with the necessary liquidity and capital resources required to conduct its business.



Shareholders' Equity

The company's common share equity increased by \$282 thousand during 2001 due to \$391 thousand of net share issue proceeds being partially offset by \$109 thousand of common shares repurchased under the company's normal course issuer bid.

In September 2001, Nycan received regulatory approval to renew its normal course issuer bid to acquire an aggregate amount of up to 0.5 million common shares in the capital of the company.

The company has the option of acquiring common shares through the normal course issuer bid over a period of 12 months, commencing September 11, 2001 and ending on September 10, 2002. Nycan intends to acquire common shares at prices that represent a discount to the underlying net asset value. After the shares are acquired, the company will cancel them.

Net Asset Value

Nycan has determined a net asset value as at December 31, 2001 based upon pre-tax established reserves (escalated dollar pricing) discounted at 10% and 12% as calculated below.

As at December 31, 2001 (\$000s)	10% DCF	12% DCF
Petroleum and natural gas reserves	\$ 42,841	\$ 39,213
Undeveloped land	3,231	3,231
Seismic	612	612
	46,684	43,056
Net debt	(5,687)	(5,687)
Exercise of options	1,237	1,237
Net asset value	\$ 42,234	\$ 38,606
Fully diluted common shares (000s)	17,700	17,700
Net asset value per share	\$ 2.39	\$ 2.18

Petroleum and natural gas reserves are based upon commodity price assumptions at January 1, 2002 and reflect a per bbl oil price (Edmonton Light) of \$29.45 for 2002 and escalating 2% per annum through to 2021. Natural gas pricing is based upon AECO-C Spot of \$3.85 per mcf for 2002, increasing to \$5.00 per mcf by 2007 and escalating thereafter at an average annual rate of 2% through 2021.

Business Risks and Prospects

In the upstream oil and gas business, risks arise from the uncertainty of commodity prices, interest and currency exchange rates, regulatory issues and returns on invested capital. Nycan attempts to manage these risks through hedging programs involving forward sales of oil and natural gas production, complying with provincial and federal regulatory requirements, maintaining adequate insurance and ensuring employee safety procedures are met. Debt is limited to internal debt to cash flow parameters and Nycan actively manages the risks of its capital investment programs by concentrating in areas of known expertise and maintaining a high level of operatorship.

Outlook

The year 2002 is expected to be an exciting one for Nycan. On the one hand, drilling activity will be more constrained as Nycan has committed not to spend more on exploration and drilling activities than internally generated cash flow will allow. On the other hand, with softness in commodity prices, higher industry debt levels and the level of consolidation that has occurred over the past year, the company expects to find better farm-in and acquisition opportunities than were available when commodity prices were peaking. Nycan's low debt level will enable us to aggressively seek out and capitalize on opportunities to help take our reserves and production to the next level.

Management's Report

The consolidated financial statements included in the annual report are the responsibility of management. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) and include management's best estimates and judgments, where required. The financial information contained elsewhere in this annual report is consistent with the consolidated financial statements.

Management is also responsible for maintaining a system of internal controls. These policies and procedures are designed to provide reasonable assurance that the financial records are reliable and that assets are safeguarded from loss or unauthorized use.

The Audit Committee of the Board of Directors meets during the year to review the consolidated financial statements with management and the external auditors before they are submitted to the Board of Directors for approval.

PricewaterhouseCoopers LLP, the independent external auditors, have been appointed by the shareholders to express an opinion as to whether the consolidated financial statements present fairly the company's financial position, results of operations and cash flows in accordance with GAAP. The external auditors have full and unrestricted access to the Audit Committee to discuss their audit and related findings.



Robert L. McPherson
President and CEO

March 21, 2002



Gary L. Lobb
Vice President, Finance and CFO

Auditors' Report

To the Shareholders of
Nycan Energy Corp.

We have audited the consolidated balance sheets of Nycan Energy Corp. as at December 31, 2001 and 2000 and the consolidated statements of operations and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2001 and 2000 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants

Calgary, Alberta

March 8, 2002

Consolidated Balance Sheets

As at December 31, 2001 and 2000
(In thousands of dollars)

	2001	2000
ASSETS		
Current assets		
Accounts receivable	\$ 3,004	\$ 6,898
Income taxes recoverable	777	—
Current portion of notes receivable (note 3)	24	55
	3,805	6,953
Notes receivable (note 3)	16	48
Property, plant and equipment – net (note 4)	29,470	20,643
	\$ 33,291	\$ 27,644
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	\$ 3,714	\$ 6,727
Current taxes payable	—	869
Current portion of long-term debt (note 5)	210	222
	3,924	7,818
Long-term debt (note 5)	5,584	1,673
Future income taxes (note 8)	6,063	4,426
Future site restoration	408	271
	15,979	14,188
SHAREHOLDERS' EQUITY		
Capital stock (note 6)	8,107	7,825
Retained earnings	9,205	5,631
	17,312	13,456
	\$ 33,291	\$ 27,644

Approved by the Board of Directors



Director



Director

Consolidated Statements of Operations and Retained Earnings

For the years ended December 31, 2001 and 2000
(In thousands of dollars, except per share amounts)

	2001	2000
REVENUES		
Oil and gas production	\$ 15,382	\$ 13,714
Royalties – net of Alberta Royalty Tax Credit	(2,726)	(2,640)
	12,656	11,074
EXPENSES		
Production	2,994	2,049
General and administrative	684	470
Interest on long-term debt	264	199
Depletion and depreciation	3,398	2,432
	7,340	5,150
Income before income tax	5,316	5,924
Current income taxes (note 8)	44	888
Future income taxes (note 8)	1,510	1,344
	1,554	2,232
Net income	3,762	3,692
Retained earnings, beginning of year	5,631	1,944
Share repurchase (note 6)	(188)	(5)
Retained earnings, end of year	\$ 9,205	\$ 5,631
Earnings per share (note 7)		
Basic	\$ 0.23	\$ 0.24
Diluted	\$ 0.22	\$ 0.22

Consolidated Statements of Cash Flows

For the years ended December 31, 2001 and 2000
(In thousands of dollars, except per share amounts)

	2001	2000
CASH PROVIDED BY (USED IN)		
Operating activities		
Net income	\$ 3,762	\$ 3,692
Add non-cash items		
Depletion and depreciation	3,398	2,432
Future income tax expense	1,510	1,344
	8,670	7,468
Cash flow from operations		
Net change in non-cash working capital (note 10)	(362)	(190)
	8,308	7,278
Investing activities		
Property, plant and equipment expenditures	(12,258)	(10,844)
Acquisition of a subsidiary (note 2)	-	(445)
Disposal of property, plant and equipment	171	2,410
Repayment of note receivable	63	45
Net change in non-cash working capital (note 10)	(403)	400
	(12,427)	(8,434)
Financing activities		
Increase in long-term debt	3,898	496
Share repurchases	(297)	(15)
Issuance of common shares (net of costs)	518	675
	4,119	1,156
Net change in cash	-	-
Cash, beginning and end of year	\$ -	\$ -
Cash flow from operations per share (note 7)		
Basic	\$ 0.53	\$ 0.48
Diluted	\$ 0.52	\$ 0.44

Notes to Consolidated Financial Statements

For the years ended December 31, 2001 and 2000

(Tabular amounts in thousands of dollars, except per share amounts)

Note 1 SIGNIFICANT ACCOUNTING POLICIES

Nycan Energy Corp. (the "company") is a publicly traded company engaged in the oil and gas business and incorporated under the Business Corporations Act (Alberta). These consolidated financial statements are prepared in accordance with accounting principals generally accepted in Canada. Management has made the necessary estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses in the preparation of the financial statements. Actual results could differ from those estimates. Significant accounting policies are summarized as follows:

a) Basis of consolidation

The consolidated financial statements include the accounts of Nycan Energy Corp. and its wholly owned subsidiary, Peregrine Petroleum Inc.

b) Petroleum and natural gas properties

i) Capitalized costs

The company follows the full cost method of accounting for petroleum and natural gas operations, whereby all costs of exploring for and developing petroleum and natural gas reserves are capitalized. Costs include land acquisition costs, geological and geophysical costs, carrying charges on non-productive properties, costs of drilling both productive and non-productive wells and related overhead charges. Proceeds from the sale of oil and gas properties are applied against capital costs, with no gain or loss recognized, unless such a sale would significantly alter the rate of depletion and depreciation.

ii) Depletion and depreciation

Depletion of exploration and development costs and depreciation of production equipment is provided using the unit-of-production method based upon estimated proved petroleum and natural gas reserves. The costs of significant undeveloped properties are excluded from costs subject to depletion. For depletion and depreciation purposes, relative volumes of petroleum and natural gas production and reserves are converted at the energy equivalent conversion rate of six thousand cubic feet of natural gas to one barrel of crude oil.

iii) Ceiling test

The capitalized costs less accumulated depletion and depreciation, future taxes and the future site restoration liability are limited to an amount equal to the estimated future net revenues from proved reserves based on year end prices and costs, plus the lower of cost and estimated fair value of unproved properties, less estimated future general and administrative expenses, financing costs, income taxes and future site restoration costs.

iv) Future site restoration and abandonment costs

Estimated costs of future site restoration and abandonments, net of recoveries, are provided for over the life of proved reserves on a unit-of-production basis. An annual provision is recorded as additional depletion and depreciation. The accumulated provision is reflected as a non-current liability and actual expenditures are charged against the accumulated provision when incurred.

c) Joint ventures

Most of the company's exploration, development and production activities are conducted jointly with others. The accounts reflect only the company's proportionate interest in such activities.

d) Financial instruments

Financial instruments of the company consist mainly of accounts receivable, income taxes recoverable, notes receivable, accounts payable and accrued liabilities, current taxes payable and long-term debt. Unless otherwise disclosed, there are no significant differences between the carrying value of these financial instruments and their estimated value.

e) Hedging activities

Gains or losses on forward sales, which have been arranged as a physical or financial hedge against commodity price fluctuations, are reflected in the product revenue at the time of sale of the related hedged production.

f) **Flow-through shares**

Resource expenditure deductions for income tax purposes related to exploration and development activities funded by flow-through share arrangements are renounced to investors in accordance with income tax legislation. Future income tax liability is increased and capital stock is reduced by the estimated tax benefits transferred to shareholders.

g) **Per share amounts**

Basic earnings per common share and cash flow from operations per common share are computed by dividing earnings and cash flow from operations by the weighted average number of common shares outstanding for the year. Diluted per share amounts reflect the potential dilution that could occur if securities or other contracts to issue common shares were exercised or converted to common shares, see note 7.

h) **Income taxes**

Income taxes are recorded using the liability method of tax allocation. Future income taxes are calculated based on temporary timing differences arising from the difference between the tax basis of an asset or liability and its carrying value using tax rates anticipated to apply in the periods when the timing differences are expected to reverse, see note 8.

i) **Stock option plan**

Nycan has a stock option plan for directors, and key employees and consultants. The stock option plan is described in note 6. Any consideration paid by holders of the stock options is credited to capital stock.

Note 2 BUSINESS ACQUISITION

In July 2000, the company acquired all of the issued and outstanding shares of Finesse Exploration Inc. (Finesse), a private company engaged in the exploration and development of petroleum and natural gas for total net consideration of \$540,830. The acquisition was financed through the issuance of 96,305 shares at \$1.00 per share and net cash of \$444,525. The purchase price was allocated as follows:

Property, plant and equipment	\$	155
Future income taxes		428
Working capital		(42)
	\$	<u>541</u>

The acquisition has been accounted for by the purchase method with the results of operations of Finesse included in the operations of the company from the date of acquisition. Finesse was wound up prior to year-end and the assets assumed by the company.

Note 3 NOTES RECEIVABLE

The company has financed a portion of an employee-owned corporation's share of construction costs on jointly owned production facilities. At December 31, 2001, the corporation owed the company \$40,000 (2000 – \$73,000) with respect to the production facilities including payments of \$24,000 which are due within the next year (2000 – \$25,000). Payments received from the corporation will be used to pay down the long-term debt of the company that relates to the facilities (see note 5). The loans to the corporation are at interest rates of 7.75% and 8.30%, matching the rates charged on the term loans to the company for the related financing. The loans are secured by the corporation's undivided interest in the facilities.

Note 4 PROPERTY, PLANT AND EQUIPMENT

	2001	2000
Petroleum and natural gas properties	\$ 40,560	\$ 28,329
Accumulated depletion and depreciation	(11,090)	(7,686)
	<u>\$ 29,470</u>	<u>\$ 20,643</u>

Unproved property costs of \$1.8 million (2000 – \$1.2 million) have been excluded from assets subject to depletion.

Administrative expenses related to exploration activities are capitalized as part of petroleum and natural gas properties and amounted to \$122,000 in 2001 (2000 – \$69,000).

Note 5 LONG-TERM DEBT

The company increased the limit on its secured revolving production loan to \$16.0 million in 2001 and at December 31, 2001 \$5.5 million was outstanding (2000 – \$1.4 million). The facility carries an interest rate of prime plus 0.5 percent and is payable on demand. The loan is subject to annual review by May 31st each year and principal payments were not required in 2001 and are not anticipated in 2002. The loan is secured by an interest in certain property, a general assignment of book debts and a \$25.0 million first floating charge demand debenture.

The company has three separate term loans with two lenders secured by liens on certain oil and gas production facilities. The loans are repayable in monthly installments of \$21,340 and bear interest at rates ranging from 7.25 percent to 8.30 percent. The balance outstanding at December 31, 2001 was \$315,000 (2000 – \$537,000).

Repayment commitments on outstanding loans over the next five years are as follows:

Years ended December 31

2002	\$	210
2003		105
	\$	<u>315</u>

Note 6 CAPITAL STOCK**a) Issued – Common Shares**

	Number	Amount
Balance – December 31, 1999	15,336,746	\$ 7,255
Issued for cash pursuant to the exercise of warrants – net of related tax effect and share issue costs (d)	371,297	233
Issued for cash pursuant to the exercise of stock options (e)	404,166	245
Issued in consideration of a business acquisition (note 2)	96,305	96
Purchased for cash pursuant to a normal course issuer bid (c)	(11,000)	(4)
Balance – December 31, 2000	16,197,514	7,825
Issued for cash pursuant to the exercise of warrants – net of related tax effect and share issue costs (d)	438,040	346
Issued for cash pursuant to the exercise of stock options (e)	71,833	45
Purchased for cash pursuant to a normal course issuer bid (c)	(195,300)	(109)
Balance – December 31, 2001	16,512,087	\$ 8,107

b) Authorized

Unlimited number of common shares
 Unlimited number of Class A preferred shares without nominal or par value
 Unlimited number of Class B preferred shares without nominal or par value

c) Normal Course Issuer Bid

During the year the company repurchased for cancellation 195,300 common shares at an average price of \$1.52 per share (2000 – 11,000 shares at an average price of \$0.83 per share). The excess of the purchase price over book value has been charged to retained earnings.

d) Public Offering & Private Placement of Shares

During 2001, 220,900 Class A warrants and 72,380 Agent warrants (2000 – 367,397 Class A warrants and 1,300 Agent warrants respectively) issued as part of a public offering in 1999, were exercised resulting in the issuance of 281,660 flow through shares and 156,380 common shares (2000 – 369,997 flow-through shares and 1,300 common shares respectively). The exercise of the warrants into flow-through shares resulted in before tax proceeds of \$334,455 being renounced during 2001. Any unexercised warrants expired on March 1, 2001.

e) Stock Option Plan

The company established a stock option plan for directors, officers, key employees and consultants under which the board of directors may grant options to acquire a maximum number of common shares from time to time, which plan has received shareholder and regulatory approval. The number of common shares reserved under the stock option plan is presently set at 1,556,601. The minimum option price is that determined by the rules of any stock exchange to which, the company is subject. Options are exercisable for five years and vest one-third on the date of grant and one-third on each subsequent anniversary date. As at December 31, 2001, there are a total of 1,187,500 options granted and outstanding under the stock option plan as follows:

	2001		2000	
	Shares	Weighted-average exercise price	Shares	Weighted-average exercise price
Outstanding – January 1,	1,119,333	0.99	914,000	0.69
Granted	215,000	1.25	647,500	1.17
Expired	(75,000)	1.25	(38,001)	0.71
Exercised	(71,833)	0.62	(404,166)	0.61
Outstanding – December 31,	1,187,500	1.04	1,119,333	0.99
Options exercisable – December 31,	878,333	0.99	554,333	0.91

Options granted and outstanding at December 31, 2001:

	Number outstanding	Number exercisable	Weighted average remaining life in years
Exercise price (\$)			
0.77	350,000	350,000	2.73
0.90	150,000	116,666	3.00
1.20	547,500	365,000	3.92
1.25	140,000	46,667	4.41
	1,187,500	878,333	3.49

Note 7 PER SHARE AMOUNTS

During 2001, the company retroactively adopted the Canadian Institute of Chartered Accountants standard with respect to the computation, presentation and disclosure of per share amounts. Under this standard, the treasury stock method is used to determine the dilutive effect of stock options, warrants and other dilutive instruments. Under the treasury stock method only "in the money" dilutive instruments impact the dilution calculations.

The weighted average number of common shares outstanding during the year used in computing per share basic earnings and cash flow from operations was 16,505,295 (2000 – 15,622,306). In computing per share diluted earnings and cash flow from operations, 322,815 shares were added to the weighted average number of common shares outstanding during the year ended December 31, 2001 (2000 – 805,217) for the dilutive effect of employee stock options and warrants. No adjustments were required to reported earnings or cash flow from operations in computing diluted per share amounts for 2001 and 2000.

Note 8 INCOME TAXES

Effective January 1, 2000, the company adopted the Canadian Institute of Chartered Accountants' new accounting standard with respect to accounting for income taxes. The new standard recommends the liability method of determining income taxes where future income taxes are based on temporary differences between the tax bases of assets or liabilities and their carrying amounts. Previously, the company used the deferral method of determining income taxes. The new standard has been applied retroactively without restatement of prior years. The effects of the new standard did not result in any significant differences to the opening balances of the 2000 financial statements or depletion or future income taxes for the year 2000.

The following table summarizes the temporary differences that give rise to the future tax liability at December 31, 2001:

	2001	2000
Property, plant & equipment	\$ 6,474	\$ 4,806
Site restoration	(174)	(121)
Income tax losses	(237)	(259)
Future tax liability at December 31, 2001	<u>\$ 6,063</u>	<u>\$ 4,426</u>

The provision for income taxes in the statement of operations and retained earnings varies from the amount that would be computed by applying the expected tax rate of 42.6% (2000 – 44.6%) to income before income taxes. The principal reasons for differences between such expected income tax expense and the amount actually recorded are as follows:

	2001	2000
Income before income tax	\$ 5,316	\$ 5,924
Income tax rate	42.6%	44.6%
Computed expected income tax expense	2,265	2,642
Increase (decrease) in income taxes resulting from		
Non-deductible royalties, taxes and lease rentals	816	800
Federal resource allowance	(1,005)	(1,040)
Alberta Royalty Tax Credit	(176)	(170)
Future income tax benefit from tax rate reduction	(198)	–
Other	(148)	–
Income tax expense	<u>\$ 1,554</u>	<u>\$ 2,232</u>

The company has the following tax deductions available to reduce future taxable income:

	2001	2000
Canadian oil and gas property expense	\$ 1,913	\$ 490
Canadian development expense	4,756	2,942
Canadian exploration expense	–	155
Undepreciated capital cost	7,039	5,697
Foreign exploration and development expense	572	635
Non-capital losses carried forward	309	590
Share issue costs	246	345
	<u>\$ 14,835</u>	<u>\$ 10,854</u>

Note 9 FINANCIAL INSTRUMENTS

The company is exposed to fluctuations in commodity prices, interest rates and Canada/U.S. dollar exchange rates. The company, when appropriate, utilizes financial instruments to manage its exposure to these risks.

a) Natural gas

During December 2001, the company entered into three fixed price contracts as follows:

Volume	Price/GJ	Term
1,000 GJs per day	\$ 3.55 /GJ	Jan.1, 2002 to Mar. 31, 2002
500 GJs per day	\$ 3.68 /GJ	Jan.1, 2002 to Oct. 31, 2002
500 GJs per day	\$ 3.58 /GJ	Jan.1, 2002 to Oct. 31, 2002

b) Credit risk

A substantial portion of the company's accounts receivable are with customers in the oil and gas industry and are subject to normal industry credit risks.

Note 10 CASH FLOW

Changes in non-cash working capital items increased (decreased) cash and cash equivalents as follows:

	2001	2000
Accounts receivable and other	\$ 3,117	\$ (3,727)
Accounts payable and accruals	(3,882)	3,937
	(765)	210
Operating activities	(362)	(190)
Investing activities	(403)	400
	\$ (765)	\$ 210

Amounts actually paid during the year related to interest expense and income and capital taxes were as follows:

	2001	2000
Interest paid	\$ 280	\$ 160
Income and capital taxes paid	\$ 1,690	\$ 19

Note 11 COMMITMENTS

The company has committed to future minimum payments under an operating lease covering the office facilities as follows:

2002	\$ 102
2003	\$ 102
2004	\$ 102
2005	\$ 85

Note 12 RELATED PARTY TRANSACTIONS

The company operates interests in common assets and participates in ongoing exploration and development with a company that has common directors and officers. At December 31, 2001, an amount of \$570,000 (2000 – \$2,112,000) was owing through the normal course of business from this related party.

Directors

Robert L. (Locke) McPherson, B.Comm.

President and Chief Executive Officer

Mr. McPherson has been President and Chief Executive Officer of Nycan since 1996. He is also a Director of Humboldt Capital Corporation. As President, Mr. McPherson is responsible for the strategic planning and overall management of company operations.

He entered the oil industry as a landman with Texaco Exploration Canada Limited. In 1976 he joined Dome Petroleum Limited as a District Landman. From 1978 to 1988, he was employed as the Land Manager, and subsequently, as the Vice President, Finance and a Director of Orbit Oil & Gas Ltd. From 1988 to 1996, he consulted to various oil and gas companies with an emphasis on resource property rationalization.

Mr. McPherson is a 25-year member of the Canadian Association of Petroleum Landmen. He graduated from the University of Calgary in 1974, with a Bachelor of Commerce Degree (with Distinction).



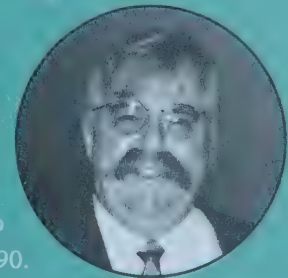
Clifford A. Jeffrey, B.Sc., P. Geol.

Vice President, Exploration

Mr. Jeffrey, a Professional Geologist, has been part of the Nycan management team since 1996. As Vice President, Exploration, Mr. Jeffrey directly manages the exploration team, in addition to planning and implementing the company's exploration and development program.

Mr. Jeffrey began his oil industry career in 1972 as a geologist with Texaco Canada Ltd. In 1976, he joined Sundance Oil Canada Ltd. as a district geologist. In 1980, he started Sagebrush Resources Ltd. and was Vice-President and a director until the company's sale in 1982. From 1982 to 1984, Mr. Jeffrey consulted for several oil and gas companies before joining Trilogy Resource Corporation in 1984 as Vice President of Exploration. Mr. Jeffrey left Trilogy in 1987 to form Esprit Resources Ltd. and was Vice-President and a Director until the company's sale in 1990. From 1990 to 1996, he consulted to several junior oil and gas producers.

Mr. Jeffrey is a member of the Canadian Society of Petroleum Geologists, the American Association of Petroleum Geologists and the Association of Professional Engineers, Geologists and Geophysicists of Alberta. He graduated from Dalhousie University in 1971 with a Bachelor of Science, Geology.



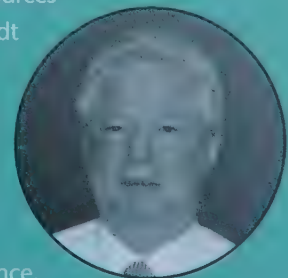
Robert W. Lamond, B.Sc.

Chairman of the Board of Directors

As Chairman of the Board for Nycan, Mr. Lamond has been instrumental in the company's corporate development and growth. He is also Chairman, President and Chief Executive Officer of Diaz Resources Ltd., a Toronto Stock Exchange listed company, and Chairman of the Board for both Humboldt Capital Corporation and Sharon Energy Ltd., both listed on the Canadian Venture Exchange.

Mr. Lamond has 35 years of experience in the oil and gas industry. Prior to managing Diaz, Mr. Lamond was President of Czar Resources Ltd. from 1974 to 1995, and President of Orbit Oil & Gas Ltd. from 1990 to 1998. Both companies focused on the Canadian natural gas business and were listed on The Toronto Stock Exchange.

Mr. Lamond graduated from the University of Edinburgh, Scotland with a Bachelor of Science, Geology, Honours in 1965.



Charles A. Teare, CA*Director*

Mr. Teare, a Chartered Accountant, has been a Director of Nycan since 1994, providing innovative support in the company's growth objectives. Since January 1998, Mr. Teare has been the Executive Vice President, Chief Financial Officer, and a Director of Dgas Resources Ltd., a Toronto Stock Exchange listed company. Mr. Teare is also Executive Vice President and Chief Financial Officer of Humboldt Capital Corporation, a public oil and gas investment company listed on the Canadian Venture Exchange, as well as a Director of various junior resource companies. Mr. Teare was Executive Vice President and Chief Financial Officer of Orbit Oil & Gas Ltd. and its predecessor companies, from 1977 to 1996.

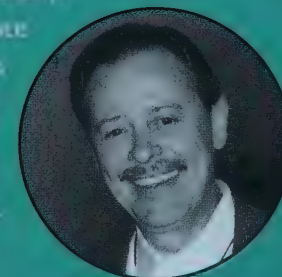
Mr. Teare graduated from the University of Calgary with a Bachelor of Commerce Degree and was admitted to the Institute of Chartered Accountants of Alberta in 1976.

**Patrick T. McCarthy, D.C., B.A., LL.B.***Director*

A Director since 1994, Mr. McCarthy plays an active role in supporting the company's business direction. He is a senior partner in the law firm of Borden Ladner Gervais LLP, where he specializes in insolvency law. In his practice, Mr. McCarthy is responsible for managing and settling distressed or large, complex, high profit constructions and insolvencies. Mr. McCarthy received his B.A. (Economics) from the University of Calgary in 1972, and graduated from the University of Windsor with a Bachelor of Laws in 1975. He was called to the Alberta bar in 1976.

**Leo J. M. Jegen***Director*

Mr. Jegen has been a Director of Nycan since 1994 and provides valuable advice critical to the company's business strategy. He has been affiliated with the oil and gas sector since 1969 and is presently semi-retired. Mr. Jegen founded Northland Wireline Services Ltd. in 1976, Northland Production Tooling in 1983, UBD Engineering Inc. in 1993, as well as Northland companies in Argentina, Venezuela, the United Kingdom and Holland - all of which were subsequently merged into Northland Energy Corp. Mr. Jegen is a co-owner of Teltec Developments Ltd. and owns several Calgary-based investment companies.



Corporate Information

Nycan Energy Corp.

1700, 633 – 6th Avenue S.W.
Calgary, AB T2P 2Y5
Telephone: (403) 264-7377
Facsimile: (403) 266-6669
E-mail: info@nycanenergy.com
Website: www.nycanenergy.com

Board of Directors

Robert W. Lamond, Chairman
Clifford A. Jeffrey
Leo J. M. Jegen
Patrick T. McCarthy, Q.C.
Robert L. (Locke) McPherson
Charles A. Teare

Management

Robert L. (Locke) McPherson
President
Clifford A. Jeffrey
Vice President, Exploration
Gary L. Lobb
Vice President, Finance and CFO
John F. Lamacchia
Manager, Operations
M. Elizabeth Burke-Gaffney
Manager, Land
Elizabeth B. Mitchell
Senior Geologist

Legal Counsel

Connelley Laffine Henderson LLP
Calgary, AB

Bankers

Alberta Treasury Branches
Calgary, AB

Auditors

PricewaterhouseCoopers LLP
Chartered Accountants
Calgary, AB

Reserve Engineering Consultants

Ashton Jenkins Mann
Petroleum Consultants
Calgary, AB

Registrar and Transfer Agent

Valiant Trust Company
Calgary, AB

Stock Listing

The Toronto Stock Exchange
Trading Symbol: NYE

Abbreviations

ARTC	Alberta Royalty Tax Credit
bbls	barrels
bcf	billion cubic feet
boe	barrels of oil equivalent
boe/d	barrels of oil equivalent per day
bbls/d	barrels per day
mboe	thousand barrels of oil equivalent
mcf*	thousand cubic feet
mcf/d	thousand cubic feet per day
mmcf	million cubic feet
mmcf/d	million cubic feet per day
ngls	natural gas liquids
OPEC	Oil Producing and Exporting Countries

*mcf is converted to boe at a 6 to 1 ratio reflecting the industry standard

Charles A. Teare, CA*Director*

Mr. Teare, a Chartered Accountant, has been a Director of Nycan since 1994, providing invaluable support to the company's growth objectives. Since January 1998, Mr. Teare has been the Executive Vice President, Chief Financial Officer, and a Director of One Resource Ltd., a Toronto Stock Exchange listed company. Mr. Teare is also Executive Vice President and Chief Financial Officer of Humboldt Capital Corporation, a public oil and gas investment company listed on the Canadian Venture Exchange, as well as a Director of various junior resource companies. Mr. Teare was Executive Vice President and Chief Financial Officer of Orbit Oil & Gas Ltd. and its predecessor companies from 1977 to 1993.

Mr. Teare graduated from the University of Calgary with a Bachelor of Commerce Degree and was admitted to the Institute of Chartered Accountants of Alberta in 1976.

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 Charles A. Teare

Management

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 President
 Clifford A. Jeffrey
 Vice President, Exploration
 Gary L. Lobb
 Vice President, Finance and CFO
 John F. Lamacchia
 Manager, Operations
 M. Elizabeth Burke-Gaffney
 Manager, Land
 Elizabeth B. Mitchell
 Senior Geologist

Legal Counsel

Gowling Lafleur Henderson LLP
 Calgary, AB

Bankers

Alberta Treasury Branches
 Calgary, AB

Auditors

PricewaterhouseCoopers LLP
 Chartered Accountants
 Calgary, AB

Reserve Engineering Consultants

Ashton Jenkins Mann
 Petroleum Consultants
 Calgary, AB

Registrar and Transfer Agent

Valiant Trust Company
 Calgary, AB

Stock Listing

The Toronto Stock Exchange
 Trading Symbol: NYE

Abbreviations

ARTC	Alberta Royalty Tax Credit
bbls	barrels
bcf	billion cubic feet
boe	barrels of oil equivalent
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bbls/d	barrels per day
mboe	thousand barrels of oil equivalent
mcf*	thousand cubic feet
mcf/d	thousand cubic feet per day
mmcf	million cubic feet
mmcf/d	million cubic feet per day
npls	natural gas liquids
OPEC	Oil Producing and Exporting Countries

*mcf is converted to boe at a 6 to 1 ratio reflecting the industry standard

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